



March 2nd, 2022

Has the bubble already deflated?

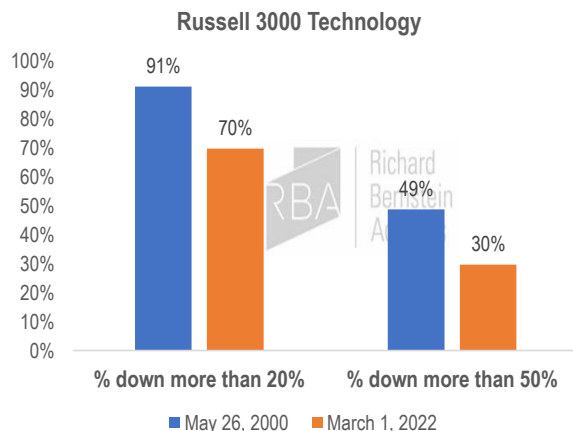
Have Tech stocks gone on sale?

With the sell-off in bubble assets beginning to broaden out and accelerate this year, many pundits are suggesting the bubble has already deflated. This sentiment is understandable given that the broad technology focused indices are well into correction territory. Beneath the surface, nearly 70% of technology stocks are in a bear market, with almost one-third down over 50% from their highs. Just a couple months ago, many investors were falling over themselves to pour more money into the NASDAQ 100 at 16,000. So with the index now trading closer to 14,000, it is not surprising that it appears to some like a significant buying opportunity. History says it may still be too early.

Most Tech stocks are already in a bear market

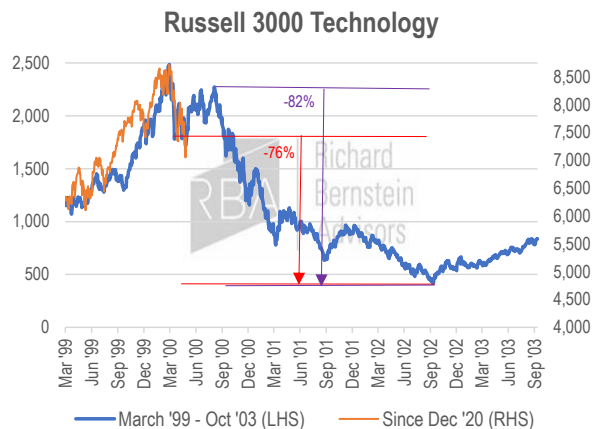
Following the peak of the Tech Bubble in March of 2000, a combination of peaking growth and tightening liquidity swiftly pushed tech stocks into bear market territory, and within just two months of the peak, over 90% of the sector was in a bear market and nearly 70% were down over 50% (Chart 1). Perversely, the mother of all dead cat bounces resulted in tech stocks rebounding more than 30% and recovering nearly two-thirds of those initial losses. Many investors were enticed to jump back into these stocks, only to be followed by another 82% decline over the next two years (Chart 2).

Chart 1: % of Tech stocks down more than 20%/50%



Source: Richard Bernstein Advisors LLC, Bloomberg, FTSE Russell

Chart 2: Tech Bubble vs. Now

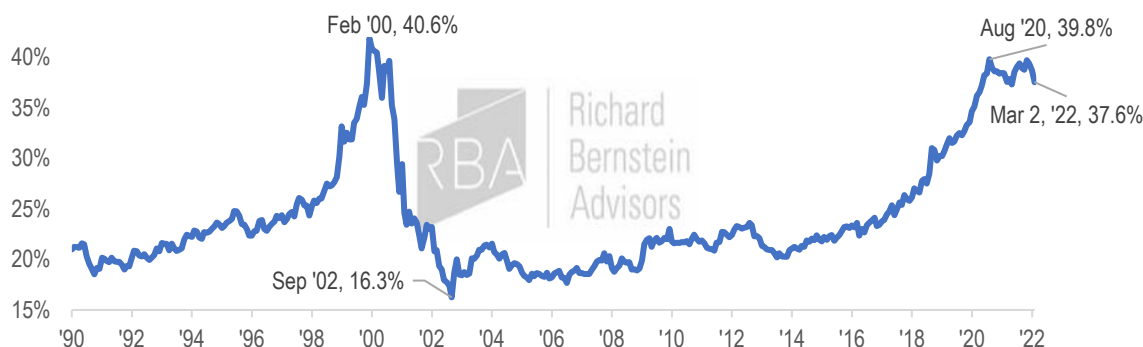


Source: Richard Bernstein Advisors LLC, Bloomberg, FTSE Russell

How will we know when the bubble has deflated?

During the prior Tech Bubble collapse, the Tech and Telecom (now renamed Communication Services) sectors went from a combined weight of 41% of the S&P 500® to a low of 16% in 2002. Despite the significant underperformance of Tech and Communication Services in this correction, the combined weight of these two sectors has decreased only from 40% to 38% (Chart 3).

Chart 3: Technology & Communication Services combined sector weight within S&P 500® since 1990



Source: Richard Bernstein Advisors LLC, S&P, Bloomberg

Here are several signposts that might be helpful to determine when the bubble is truly deflated:

- Valuations will significantly contract, and the IPO market will enter a cold period.
- Tech and cryptocurrency analysts will go from heroes to villains.
- The number of technology-focused investment products, such as ETFs, will shrink.
- Business media will cancel TV segments and news columns dedicated to technology and innovation.
- People will no longer quit their jobs to join early-stage start-ups or to trade cryptocurrencies.
- No one will care about reading a report like this about when the bubble has deflated.

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